

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Elliott County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of Elliott County, Kentucky.

Financial Condition:

The Elliott County Fiscal Court had total receipts of \$3,251,993 and disbursements of \$3,581,236 in fiscal year 2014. This resulted in a total ending fund balance of \$492,701, which is a decrease of \$211,143 from the prior year.

Report Comments:

- 2014-001 Restricted Road Funds Of \$26,706 Were Spent For General Fund Purposes, Increasing The Liability Owed From The General Fund To The Road Fund To \$146,905
- 2014-002 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years
- 2014-003 Timesheets Should Be Maintained For All Employees
- 2014-004 The County Did Not Comply With Bid Procedures For A Purchase Exceeding \$20,000
- 2014-005 The County Lacks Adequate Segregation Of Duties And Internal Controls Over Disbursements

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Carl Fannin, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Elliott County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Elliott County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Elliott County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Elliott County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Elliott County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2015 on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 Restricted Road Funds Of \$26,706 Were Spent For General Fund Purposes, Increasing The Liability Owed From The General Fund To The Road Fund To \$146,905
- 2014-002 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years
- 2014-003 Timesheets Should Be Maintained For All Employees
- 2014-004 The County Did Not Comply With Bid Procedures For A Purchase Exceeding \$20,000
- 2014-005 The County Lacks Adequate Segregation Of Duties And Internal Controls Over Disbursements

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

February 27, 2015

ELLIOTT COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Carl Fannin	County Judge/Executive
Billy Wilson	Magistrate
Kathy Adkins	Magistrate
Brian Dillon	Magistrate
Angie Porter	Magistrate
James Salyers	Magistrate
Robert Wright	Magistrate
Gary Sparks	Magistrate

Other Elected Officials:

John Lewis, Jr.	County Attorney
Mark Lewis	Jailer
Shelia Blevins	County Clerk
Jason Ison	Circuit Court Clerk
Jim Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark Lewis	Coroner

Appointed Personnel:

Heather Stevens	County Treasurer
Darren Fannin	Road Supervisor

ELLIOTT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

ELLIOTT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 588,873	\$	\$
In Lieu Tax Payments	17,621		
Excess Fees	5,606		
Licenses and Permits	1,677		
Intergovernmental	437,186	1,529,796	86,197
Charges for Services		2,481	46
Miscellaneous	18,117	22	10
Interest	67	186	
Total Receipts	<u>1,069,147</u>	<u>1,532,485</u>	<u>86,253</u>
DISBURSEMENTS			
General Government	638,193	19,966	
Protection to Persons and Property	64,729		294,034
General Health and Sanitation	2,400		
Social Services	18,117		
Recreation and Culture	23,918		
Roads		1,243,151	
Debt Service	20,846	161,091	
Administration	287,414	132,531	9,900
Total Disbursements	<u>1,055,617</u>	<u>1,556,739</u>	<u>303,934</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>13,530</u>	<u>(24,254)</u>	<u>(217,681)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		118,100	
Transfers From Other Funds	151,097		210,000
Transfers To Other Funds	(210,000)	(172,553)	
Total Other Adjustments to Cash (Uses)	<u>(58,903)</u>	<u>(54,453)</u>	<u>210,000</u>
Net Change in Fund Balance	(45,373)	(78,707)	(7,681)
Fund Balance - Beginning	116,676	165,121	14,025
Fund Balance - Ending	<u>\$ 71,303</u>	<u>\$ 86,414</u>	<u>\$ 6,344</u>
Composition of Fund Balance			
Bank Balance	\$ 73,638	\$ 250,368	\$ 13,499
Less: Outstanding Checks	(2,335)	(154,330)	(7,155)
Less: Outstanding Short-Term Loan (Note 5)		(9,624)	
Fund Balance - Ending	<u>\$ 71,303</u>	<u>\$ 86,414</u>	<u>\$ 6,344</u>

The accompanying notes are an integral part of the financial statement.

ELLIOTT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds			Unbudgeted Fund	
Local Government Economic Assistance Fund	911 Fund	Library Construction Fund	Public Facilities Corporation Fund	Total Funds
\$ 128,814	\$ 159,704	\$	\$	\$ 877,391
				17,621
				5,606
				1,677
2,000		125,000	148,462	2,328,641
				2,527
				18,149
66		62		381
<u>130,880</u>	<u>159,704</u>	<u>125,062</u>	<u>148,462</u>	<u>3,251,993</u>
16,563				674,722
14,567	146,344			519,674
14,242				16,642
				18,117
				23,918
				1,243,151
		122,856	320,673	625,466
	28,701		1,000	459,546
<u>45,372</u>	<u>175,045</u>	<u>122,856</u>	<u>321,673</u>	<u>3,581,236</u>
85,508	(15,341)	2,206	(173,211)	(329,243)
				118,100
			21,456	382,553
				(382,553)
			21,456	118,100
85,508	(15,341)	2,206	(151,755)	(211,143)
95,127	17,523	139,605	155,767	703,844
<u>\$ 180,635</u>	<u>\$ 2,182</u>	<u>\$ 141,811</u>	<u>\$ 4,012</u>	<u>\$ 492,701</u>
\$ 180,635	\$ 2,361 (179)	\$ 141,811	\$ 4,012	\$ 666,324 (163,999) (9,624)
<u>\$ 180,635</u>	<u>\$ 2,182</u>	<u>\$ 141,811</u>	<u>\$ 4,012</u>	<u>\$ 492,701</u>

The accompanying notes are an integral part of the financial statement.

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ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Elliott County includes all budgeted and unbudgeted funds under the control of the Elliott County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

911 Fund - The primary purpose of this fund is to account for dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Library Construction Fund - The primary purpose of this fund is to account for construction of the Elliott County Public Library. The primary source of receipts for this fund is state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Facilities Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Facilities Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Elliott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Elliott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	Total Transfers From Other Funds
General Fund	\$	\$ 151,097	\$ 151,097
Jail Fund	210,000		210,000
Public Facilities Corporation Fund		21,456	21,456
Total Transfers To Other Funds	<u>\$ 210,000</u>	<u>\$ 172,553</u>	<u>\$ 382,553</u>

Reason for transfers:

To move resources from the General Fund and Road Funds, for budgetary purposes, to the funds that will expend them.

Note 4. Interfund Receivables and Liabilities

The table below reflects fund balances after accounting for receivables and liabilities that are not included on the financial statement prepared in accordance with the regulatory basis of accounting.

	General Fund	Road Fund	Jail Fund	LGEA Fund
Fund Balance - Ending	\$ 71,303	\$ 86,414	\$ 6,344	\$ 180,635
Interfund Receivables/Liabilities	<u>(146,905)</u>	<u>146,905</u>	<u>(21,795)</u>	<u>21,795</u>
Fund Balance - Ending	<u>\$ (75,602)</u>	<u>\$ 233,319</u>	<u>\$ (15,451)</u>	<u>\$ 202,430</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Short-term Debt

A. Financing Obligation – Chevrolet Silverado

On July 9, 2013, the Elliott County Fiscal Court entered into a lease agreement with Kentucky Bank to purchase a 2009 Chevrolet Silverado Crew Cab Pickup in the amount of \$9,624. As of June 30, 2014, this lease had a remaining balance of \$9,624. The agreement requires the lease to be paid in full by July 9, 2014.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$	\$ 9,624	\$	\$ 9,624	\$ 9,624
Total Short-term Debt	\$ 0	\$ 9,624	\$ 0	\$ 9,624	\$ 9,624

Note 6. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Courthouse Renovation

On November 16, 2006, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$1,770,000 in First Mortgage Refunding Revenue Bonds, Series 2006, for the purpose of defeasing the First Mortgage Revenue Bonds, Series 2000. The 2000 series bonds were issued to renovate the existing courthouse facility. On May 1, 2000, the county entered into a lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. Interest on the bonds is payable semi-annually in September and March of each year commencing March 1, 2007. Principal payments are payable annually commencing March 1, 2007. As of June 30, 2014, the principal balance on these bonds was \$1,105,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 105,000	\$ 43,860
2016	110,000	39,975
2017	110,000	35,905
2018	115,000	31,725
2019	120,000	27,353
2020-2023	545,000	59,075
Totals	\$ 1,105,000	\$ 237,893

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

B. Road Bond Series 2010

On June 17, 2010, the Elliott County Fiscal Court issued General Obligation Bonds, Series 2010 for the purpose of defeasing the General Obligation Bond Series 2007 in the amount of \$1,495,000. Semiannual principal and interest payments are required in January and July of each year. As of June 30, 2014, the principal balance remaining was \$1,240,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 130,000	\$ 41,450
2016	135,000	38,131
2017	140,000	34,175
2018	145,000	29,628
2019	150,000	24,369
2020-2023	540,000	38,028
Totals	<u>\$ 1,240,000</u>	<u>\$ 205,781</u>

C. KADD Courthouse Renovation

On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust (KADD) to finance the completion of the renovation of the county's courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year. Principal payments are due in September of each year to be paid in full September 20, 2026. As of June 30, 2014, the principal balance remaining was \$165,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 10,000	\$ 10,333
2016	10,000	9,808
2017	10,000	9,283
2018	10,000	8,750
2019	10,000	8,210
2020-2024	70,000	30,460
2025-2027	45,000	7,530
Totals	<u>\$ 165,000</u>	<u>\$ 84,374</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

D. KPADD 2011- Library

On December 7, 2010, the Elliott County Fiscal Court entered into an agreement with the Kentucky Public Agency Development Lease Program (KPADD) in the amount of \$1,076,000 to refinance the Kentucky Area Development District agreement dated December 20, 2001 that was used for the construction of the Elliott County Public Library. Semiannual principal and interest payments are required in June and December of each year. As of June 30, 2014, the principal balance remaining was \$811,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 89,000	\$ 27,960
2016	93,000	25,341
2017	95,000	22,402
2018	99,000	19,176
2019	101,000	15,599
2020-2022	334,000	21,230
Totals	<u>\$ 811,000</u>	<u>\$ 131,708</u>

E. Asphalt Paver

On January 7, 2014, the Elliott County Fiscal Court entered into a lease agreement with Republic Bank & Trust Company in the amount of \$118,100 to purchase an asphalt paver. Annual principal and interest payments are required in December of each year. As of June 30, 2014, the principal balance remaining was \$118,100. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 22,766	\$ 2,475
2016	23,017	2,223
2017	23,549	1,691
2018	24,103	1,137
2019	24,665	575
Totals	<u>\$ 118,100</u>	<u>\$ 8,101</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 1,205,000	\$	\$ 100,000	\$ 1,105,000	\$ 105,000
General Obligation Bonds	1,370,000		130,000	1,240,000	130,000
Financing Obligations	1,078,000	118,100	102,000	1,094,100	121,766
 Total Long-term Liabilities	 \$ 3,653,000	 \$ 118,100	 \$ 332,000	 \$ 3,439,100	 \$ 356,766

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$171,816, FY 2013 was \$185,673, and FY 2014 was \$180,650.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2014, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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ELLIOTT COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 518,115	\$ 599,638	\$ 588,873	\$ (10,765)
In Lieu Tax Payments	18,000	18,000	17,621	(379)
Excess Fees			5,606	5,606
Licenses and Permits			1,677	1,677
Intergovernmental	529,855	542,896	437,186	(105,710)
Miscellaneous	14,400	16,954	18,117	1,163
Interest	70	70	67	(3)
Total Receipts	1,080,440	1,177,558	1,069,147	(108,411)
DISBURSEMENTS				
General Government	612,342	682,421	638,193	44,228
Protection to Persons and Property	28,016	64,885	64,729	156
General Health and Sanitation	2,400	2,400	2,400	
Social Services	55,600	60,000	18,117	41,883
Recreation and Culture	34,800	35,300	23,918	11,382
Debt Service	26,500	26,500	20,846	5,654
Administration	267,300	369,246	287,414	81,832
Total Disbursements	1,026,958	1,240,752	1,055,617	185,135
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	53,482	(63,194)	13,530	76,724
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	164,097	164,097	151,097	(13,000)
Transfers To Other Funds	(216,979)	(216,979)	(210,000)	6,979
Total Other Adjustments to Cash (Uses)	(52,882)	(52,882)	(58,903)	(6,021)
Net Change in Fund Balance	600	(116,076)	(45,373)	70,703
Fund Balance - Beginning		116,676	116,676	
Fund Balance - Ending	\$ 600	\$ 600	\$ 71,303	\$ 70,703

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,214,934	\$ 1,500,659	\$ 1,529,796	\$ 29,137
Charges For Services	3,000	3,000	2,481	(519)
Miscellaneous			22	22
Interest	300	300	186	(114)
Total Receipts	1,218,234	1,503,959	1,532,485	28,526
DISBURSEMENTS				
General Government	29,000	19,966	19,966	
Roads	730,537	1,189,276	1,125,051	64,225
Debt Service	173,000	172,923	172,923	
Administration	134,600	136,054	132,531	3,523
Total Disbursements	1,067,137	1,518,219	1,450,471	67,748
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	151,097	(14,260)	82,014	96,274
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(151,097)	(151,097)	(151,097)	
Total Other Adjustments to Cash (Uses)	(151,097)	(151,097)	(151,097)	
Net Change in Fund Balance		(165,357)	(69,083)	96,274
Fund Balance - Beginning		165,121	165,121	
Fund Balance - Ending	\$ 0	\$ (236)	\$ 96,038	\$ 96,274
Reconciliation of the Road Fund				
Total Disbursements - Budgetary Basis			\$ 1,450,471	
Reclassify Debt Service Disbursement To Transfer To Public Facilities Corporation Fund			(21,456)	
Increase Roads To Include Asphalt Paver Purchase			118,100	
Increase Debt Service To Include Short-Term Liability Owed At June 30, 2014			9,624	
Total Disbursements - Regulatory Basis			\$ 1,556,739	
Total Other Adjustment To Cash (Uses) - Budgetary Basis			\$ (151,097)	
Financing Obligation Proceeds For Asphalt Paver Purchase			118,100	
Reclassify Transfer To Public Facilities Corporation Fund From Debt Service			(21,456)	
Total Other Adjustments To Cash (Uses) - Regulatory Basis			\$ (54,453)	
Fund Balance - Ending - Budgetary Basis			\$ 96,038	
Decrease To Include Short-Term Liability Owed At June 30, 2014			(9,624)	
Total Fund Balance - Ending - Regulatory Basis			\$ 86,414	

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 88,590	\$ 88,598	\$ 86,197	\$ (2,401)
Miscellaneous			46	46
Interest	20	20	10	(10)
Total Receipts	88,610	88,618	86,253	(2,365)
DISBURSEMENTS				
Protection to Persons and Property	296,239	301,714	294,034	7,680
Adminsitration	9,350	17,672	9,900	7,772
Total Disbursements	305,589	319,386	303,934	15,452
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(216,979)	(230,768)	(217,681)	13,087
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	216,979	216,979	210,000	(6,979)
Total Other Adjustments to Cash (Uses)	216,979	216,979	210,000	(6,979)
Net Change in Fund Balance		(13,789)	(7,681)	6,108
Fund Balance - Beginning		14,025	14,025	
Fund Balance - Ending	\$ 0	\$ 236	\$ 6,344	\$ 6,108

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 30,000	\$ 60,636	\$ 128,814	\$ 68,178
Miscellaneous			2,000	2,000
Interest		27	66	39
Total Receipts	30,000	60,663	130,880	70,217
DISBURSEMENTS				
General Government	13,950	16,864	16,563	301
Protection to Persons and Property		15,000	14,567	433
General Health and Sanitation	3,050	14,242	14,242	
Administration		96,684		96,684
Total Disbursements	17,000	142,790	45,372	97,418
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	13,000	(82,127)	85,508	167,635
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(13,000)	(13,000)		13,000
Total Other Adjustments to Cash (Uses)	(13,000)	(13,000)		13,000
Net Change in Fund Balance		(95,127)	85,508	180,635
Fund Balance - Beginning		95,127	95,127	
Fund Balance - Ending	\$ 0	\$ 0	\$ 180,635	\$ 180,635

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 150,000	\$ 159,704	\$ 159,704	\$
Intergovernmental	25,000	25,000		(25,000)
Total Receipts	175,000	184,704	159,704	(25,000)
DISBURSEMENTS				
Protection to Persons and Property	143,000	149,182	146,344	2,838
Administration	32,000	53,045	28,701	24,344
Total Disbursements	175,000	202,227	175,045	27,182
Net Change in Fund Balance		(17,523)	(15,341)	2,182
Fund Balance - Beginning		17,523	17,523	
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,182	\$ 2,182

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LIBRARY CONSTRUCTION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 125,000	\$ 125,000	\$ 125,000	\$
Interest		21	62	41
Total Receipts	125,000	125,021	125,062	41
DISBURSEMENTS				
Debt Service	125,085	125,085	122,856	2,229
Administration	500	139,541		139,541
Total Disbursements	125,585	264,626	122,856	141,770
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(585)	(139,605)	2,206	141,811
Net Change in Fund Balance	(585)	(139,605)	2,206	141,811
Fund Balance - Beginning	585	139,605	139,605	
Fund Balance - Ending	\$ 0	\$ 0	\$ 141,811	\$ 141,811

ELLIOTT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

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ELLIOTT COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

ELLIOTT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 233,000	\$	\$	\$ 233,000
Buildings	\$ 4,795,529			4,795,529
Other Equipment	\$ 1,801,260	178,360		1,979,620
Vehicles and Equipment	\$ 277,488	11,813		289,301
Infrastructure	\$ 2,117,879	991,149	2,465,180	643,848
 Total Capital Assets	 <u>\$ 9,225,156</u>	 <u>\$ 1,181,322</u>	 <u>\$ 2,465,180</u>	 <u>\$ 7,941,298</u>

Restatements:

The Beginning Balance of Other Equipment was increased by \$919,259.

The Beginning Balance of Vehicles and Equipment was decreased by \$221,620

The Beginning Balance of Infrastructure was decreased by \$402,301.

These restatements were the result of management corrections to the Capital Asset Schedule.

ELLIOTT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Buildings and Building Improvements	\$ 25,000	10-20
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	0-50

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Fannin, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Elliott County Fiscal Court for the fiscal year ended June 30, 2014 and the related notes to the financial statement and have issued our report thereon dated February 27, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Elliott County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Fiscal Court's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comments and recommendations as item 2014-005 that we consider to be a significant deficiency.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, and 2014-004.

County Judge/Executive's Responses to Findings

The Elliott County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

February 27, 2015

**ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

STATE LAWS AND REGULATIONS:

2014-001 Restricted Road Funds Of \$26,706 Were Spent For General Fund Purposes, Increasing The Liability Owed From The General Fund To The Road Fund To \$146,905

Money from restricted road funds was used for purposes other than permitted by law. Road funds can only be spent on roads, except for the amount approved by Department for Local Government (DLG) on the Road Cost Allocation Worksheet. For the years 2010 through 2013, the liability owed from the General Fund to the Road Fund due to misuse of restricted funds was \$120,199. During the year, we determined the Road Fund spent additional restricted funds of \$26,706 on Solid Waste Coordinator Salary, bringing the cumulative liability owed from the General Fund to the Road Fund to \$146,905. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, however the liability is still owed. We recommend the General Fund liability be paid as money becomes available.

County Judge/Executive Carl Fannin's response: The Solid Waste Coordinators salary is now being paid from the General Fund. We will formulate a payment plan to pay this deficit.

2014-002 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years

In prior years, \$21,795 of restricted Local Government Economic Assistance (LGEA) funds were transferred to the Jail Fund in excess of the approved amount, creating a liability between the funds. The excess amount had not been repaid as of FYE June 30, 2014. As of FY 2010-2011, excess transfers from the LGEA Fund to the Jail Fund were no longer being made. Fiscal Court has not made any payments from the Jail Fund to the LGEA Fund to reduce the liability. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability. We recommend the General Fund liability be paid as money becomes available.

County Judge/Executive Carl Fannin's response: We will work on a payment plan to pay back this deficit.

2014-003 Timesheets Should Be Maintained For All Employees

KRS 337.320 requires every employer to maintain a record of: (a) the amount paid each pay period to each employee; (b) the hours worked each day and each week by each employee. The Road Supervisor does not submit a timesheet. All county employees, with the exception of elected officials, should submit timesheets to document their time worked and leave time used. Without maintaining all timesheets with the signatures of both employee and supervisor, documentation of actual hours worked is not verified by employee and approved by supervisor. We recommend the Road Supervisor maintain and submit timesheets that are signed by both the employee and supervisor, and that timesheets agree to the hours paid.

County Judge/Executive Carl Fannin's response: Timesheets will be kept for all employees from this point forward.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-004 The County Did Not Comply With Bid Procedures For A Purchase Exceeding \$20,000

The County purchased a backhoe for \$38,500 from a local vendor without advertising for bids. Making purchases over \$20,000 without advertising for bids is allowable if purchases are made from an approved state contract vendor for the state contract price. However, this purchase was made from a local vendor who was not an approved state price contract vendor. Failure to either advertise for bids or purchase from an approved state price contract vendor is a violation of KRS 424.260 and a possible misuse of public funds. We recommend the County purchase from state price contract vendors or advertise for bids for all purchases of \$20,000 or more in accordance with KRS 424.260.

County Judge/Executive Carl Fannin's response: This was a clear oversight that we will work to ensure does not happen again.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2014-005 The County Lacks Adequate Segregation Of Duties And Lacks Internal Controls Over Disbursements

The County lacks adequate segregation of duties and internal controls over disbursements. Typically when one person is in charge of these functions, strong compensating controls are needed. The treasurer posts receipts, disbursements, and prepares bank reconciliations and reports. We recommend the following procedures be implemented to strengthen internal controls over these various functions:

An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs checks should cancel purchase orders and invoices to ensure invoices are not paid twice. Also, the employee should ensure the check numbers agree to the check register and vouchers and the disbursements are posted to the appropriate account code.

County Judge/Executive Carl Fannin's response: We will have another employee review disbursements.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ELLIOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ELLIOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "Carl Farnum", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Heather Stevens", written over a horizontal line.

County Treasurer

